AN EXPLORATION OF OVERCONFIDENCE IN THE UTILIZATION OF FINANCIAL ADVISORS

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WHAT IS OVER CONFIDENCE ?

Because humans can be illogical, the decisions that they make may not be in-line with their ultimate goals. Overconfidence addresses those anomalies in the way we think and make decisions in relation to finance. If we are able to understand how we think and how our thoughts affect our financial decisions, an individual within a household will be able to address or identify certain behaviors that might hinder them from making the right financial decision.

Conventional theories of finance such as EMH do not take in consideration the inconsistencies of thought that relate to humans. Because overconfidence takes into consideration the inefficiencies in making decisions, by understanding the relationship of overconfidence and the utilization of a financial advisor, they will be better equipped to go through the reasoning process as to why a financial advisor might be beneficial to them financially and if overconfidence is hindering their decision.

Because Americans are not saving adequate amounts of money towards their retirement, it is the intent of the study to educate them on how the existence of overconfidence can affect their decision to utilize a financial advisor. Retirement planning is one of many of the financial processes utilized by financial advisors. However, this study will address overconfidence and its effect on an individual utilizing a financial advisor.

METHODOLOGY

The purpose of this study is to understand the association between gender, age, marital status, education, and overconfidence in an individual utilizing a financial advisor. The following research question relates to this study.

Research Question. How are gender, age, marital-status, education, and overconfidence associated with the likelihood of an individual utilizing a financial advisor?

The research design for this study will be conducted as a secondary data analytical study in order to test the research question and hypotheses created to explore the association with overconfidence with an individual utilizing a financial advisor. Binary logistic regression model is used to analyze the data. In viewing overconfidence, it is predicted that it will have a negative impact on the likelihood of an individual utilizing a financial advisor.

$$\log(p/1-p) = -b_0 - b_1\text{gender} + b_2\text{age} - b_3\text{married} - b_4\text{single} - b_5\text{separatedordivorced} + b_6\text{highschool} + b_7\text{somecollege} + b_8\text{collegegrad} + b_9\text{postgraduate} - b_{10}\text{overconfidene} + e$$

Final Model - Logistic Regression Predicting Likelihood of Using a Financial Advisor based on Gender, Age, Marital Status, Education, and Overconfidence.

							95% C.I.for EXP(B)	
	B	S.E.	Wald	*df*	Sig.	Exp(B)	Lower	Upper
Gender	-.245	.055	19.664	1	.000	.783	.703	.872
Separated Or Divorced	-.222	.088	6.409	1	.011	.801	.674	.951
High School	.561	.163	11.826	1	.001	1.753	1.273	2.414
Some College	.923	.158	34.201	1	.000	2.518	1.848	3.431
College Grad	1.524	.158	92.800	1	.000	4.592	3.368	6.262
Post Graduate	1.601	.165	93.751	1	.000	4.957	3.585	6.854
Over Confident	-1.135	.060	358.881	1	.000	.321	.286	.361
Constant	-1.001	.178	31.744	1	.000	.368		

RESEARCH OBJECTIVE

Understanding the concept of overconfidence and applying this concept to the decision-making of individuals as it pertains to employing a financial advisor, this will provide individuals within households and practitioners with more insight into understanding the psychological and sociological traits involved in making financial decisions. These understandings will assist individuals within households in reaching their long-term goals and allow practitioners to better solicit prospects by understanding their behavior.

FINDINGS

Overall, the results of the logit showed statistical significant associations amongst gender, separated or divorced, education, and overconfidence, as they are independently associated with the dependent variable utilization of a financial advisor. Age and single or married status where shown not to contribute to the model in predicting the likelihood of an individual utilizing a financial advisor. The logistic regression results supported the theory that gender, education, separated or divorced, and overconfidence collectively are statistically significant in predicting an individual's propensity to utilize a financial advisor. However, age, single, or married status did not reveal statistical results that indicate they are not significant contributors in predicting an individual's propensity to utilize a financial advisor. Differences in gender, an increase in education, and a decrease in overconfidence result in an increase in the likelihood of an individual utilizing a financial advisor. For this reason, the findings using the independent variables gender, education, marital status, and overconfidence support the hypotheses.

CONCLUSION

The results from this research study divulge significant predictors that can assist consumers and practitioners in determining the likelihood of an individual utilizing a financial advisor. In addition, by having an understanding and being able to identify overconfident behavior, consumers and practitioners will better equip themselves with additional knowledge that would assist them in making financial decisions. If consumers were provided with a questionnaire that is comprised of similar questions derived from the 2012 NFCS, they would possibly make a more informed financial decision based on the results of the survey. Moreover, practitioners could administer these same questions to each of the current and potential clients to identify behaviors related to overconfidence. When prospecting for new clients, practitioners could also use those significant variables identified within this study to segment their markets in a more targeted fashion.

The results of the logistic regression revealed that gender, education, and separated or divorced are significant predictors of an individual utilizing a financial advisor.

A questionnaire similar to the 2012 NFCS used to identify overconfidence could be used to identify if this trait exists in prospective or current clients. So that, both clients and practitioners would be aware of the effects of overconfidence on making financial decisions and lead them to make more informed decisions related to the financial goals.